

ANNUAL AUDITED REPURI

**FORM X-17A-5** 

**PART III** 

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Section

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Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder SEC FILE

8-37440

REPORT FOR THE PERIOD BEGINNING	1-Jan-07	AND ENDING	31-Dec-07
·	MM/DD/YY		MM/DD/YY
	A. REGISTRANT ID	ENTIFICATION	
NAME OF BROKER-DEALER			·
Estrada Hinojosa and Company, Inc.			OFFICIAL USE ONLY
Zottada Timojosa dila Sompany, mo.			
ADDRESS OF PRINCIPAL PLACE OF BUSINES	SS: (Do not use P.O. Box N	0.)	
1717 Main Street, 47th Floor, Lock Box 47			
	(No. and Street	)	
Dallas	Texas		75201
(City)	(State)	(	Zip Code)
NAME AND TELEPHONE NUMBER OF PERSON	N TO CONTRACT IN REGA	ARD TO THIS REPORT	
Noe Hinojosa, Jr.	<del></del>	<del></del>	4) 658-1670
		(Area Coo	le - Telephone No.)
	B. ACCOUNTANT ID	ENTIFICATION	
INDEPENDENT PUBLIC ACCOUNTANTS (Whos			
	o opinion to contamod in the	is respond	
WEAVER AND TIDWELL, L.L.P.			
Public Accounting and Consulting Firm			
40004 Mark Daine College 4400	Dallar -	ECURITIES AND EXCHANGE COMMISSION	75054
12221 Merit Drive, Suite 1400	Dallas S	ECHRITIES AS (Stote)	75251
(Address)	(City)	(State)	(Zip Code)
CHECK ONE:	ļ	MAR 3 2008	
n Certified Public	Accountant	BRANCH OF REESTINATIONS	·
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Accountant not	resident in United State or a	BRANCH ON APIL APILONS ary of its possessaddhy APILONS	
		03	
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	FOR OFFICIAL L	ISE ONLY PRO	CESSED
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		MAR	2 8 2008
* Claims for exemption from the re-	nuirement that the enough	THO	MSON

Persons who to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

independent public accountant must be supported by a statement of facts and circumstances relied on at the

bureau of the exemption. See section 240.17a-5(e)(2).



#### Oath or Affirmation

financial statement December 31, 200	and supporting, are true and	r affirm) that, to the best of my knowledge and belief, the accompanying ag schedules pertaining to the firm of <u>Estrada Hinojosa and Company, Inc.</u> , as of a correct. I further swear (or affirm) that neither the Company nor any partner,
proprietor, principa	I officer, or dire	ector has any proprietary interest in any account classified solely as that of a customer,
except as follows:		$\bigcap$
		UNTS OF PRINCIPAL OFFICERS AND DIRECTORS THAT ARE CUSTOMER ACCOUNTS (DEBITS \$ CREDITS \$
		Signature
Subscribed and sw	orn to before	me this President & CEO
28 day of Fe	hnard	2008 Title
Belinda Notary Public	a Man	BELINDA A GARZA Notary Public, State of Texas My Commission Expires November 10, 2011
This report * conta	ins (check all a	applicable boxes)
	<i>(-</i> )	Carina anna
<u>-</u> -	(a)	Facing page.
	(b)	Statement of financial condition
<u>n_</u>	(c)	Statement of income (loss)
<u> </u>	(d)	Statement of cash flows
<u>n_</u>	(e)	Statement of changes in stockholders' equity or partners' or sole proprietor's capital.
	<b>(f)</b>	Statement of changes in liabilities subordinated to claims of general creditors.
<u>ln_</u>	(g)	Computation of net capital for brokers and dealers pursuant to Rule 15c3-3.
n	(h)	Computation for determination to the possession or control requirements for brokers
n	(1)	Information relating to the possession or control requirements for brokers and dealers under Rule 15c3-3.
n	(i)	A reconciliation, including appropriate explanation, of the computation of net capital under Rule 15c3-1 and the computation for determination of the reserve requirements under exhibit A of Rule 15c3-3.
	(k)	A reconciliation between the audited and unaudited statements of financial condition with respect to methods of consolidation.
n	(1)	An eath or affirmation.
ΪÏ	(m)	A copy of the SIPC supplemental report.
Ħ	(n)	A report describing any material inadequacies found to exist or found to have existed
	V'')	since the date of the previous audit.
n	(o)	Independent auditor's report on internal accounting control.
Ħ	(p)	Schedule of segregation requirements and funds in segregation - customers' regulated
<u> </u>	\F/	commodity futures account pursuant to Rule 171-5.

<sup>\*</sup> For conditions of confidential treatment of certain portions of this filing, see section 240.17e-5(e)(3). Note: Various exchanges may require an additional letter of attestation.

### ESTRADA HINOJOSA & COMPANY, INC.

FINANCIAL REPORT

**DECEMBER 31, 2007** 

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

#### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ESTRADA HINOJOSA & COMPANY, INC.
Dallas, Texas

We have audited the accompanying statement of financial condition of Estrada Hinojosa & Company, Inc. as of December 31, 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities and Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Estrada Hinojosa & Company, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, IV and V is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

WEAVER AND TIDWELL, L.L.P.

DALLAS

Wearn and Tidwan, Lif

Dallas, Texas February 28, 2008

Three Forest Plazu 12221 Merit Drive Suite 1400 Dallas, Texas 75251-2280 972.490.1970 F 972.702.8321

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AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL

OFFICES IN

FORT WORTH

HOUSTON



## ESTRADA HINOJOSA & COMPANY, INC. STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2007

#### **ASSETS**

Cash Cash deposits with clearing organization Receivable from brokers and dealers Other receivables Current tax receivable Furniture, fixtures and equipment, at cost, less accumulated depreciation of \$152,853 Advance to related parties Prepaid expenses  TOTAL ASSETS	\$ 1,417,483 1,031,000 220,977 394,080 32,008 94,781 30,000 44,728 3,265,057
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Accounts payable and accrued expenses Deferred income taxes	\$  736,576 82,111
	 818,687
STOCKHOLDERS' EQUITY Common stock, \$.01 par value, 1,000,000 shares authorized,	
11,951 shares issued and outstanding	120
Additional paid-in capital Retained earnings	289,377 2,156,873
	2,446,370
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,265,057

#### ESTRADA HINOJOSA & COMPANY, INC. STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2007

#### **REVENUE**

Underwriting Financial advisory Interest	\$ 4,231,840 4,924,057 127,846
	9,283,743
OPERATING EXPENSES	
Commissions Clearing costs Employee compensation Office rent Depreciation Interest expense Other operating expenses	3,029,049 27,480 3,536,977 362,389 21,834 21,473 2,269,821
Income before income taxes	14,720
Income tax expense	3,515
NET INCOME	\$ 11,205

## ESTRADA HINOJOSA & COMPANY, INC. STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY YEAR ENDED DECEMBER 31, 2007

	\$.0 \$.0	mmon stock 01 Par ⁄alue	Additional Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2006	\$	120	\$ 289,377	\$ 2,145,668	\$ 2,435,165
Net income	<del></del>			11,205	11,205
Balance, December 31, 2007	<u></u> \$	120_	\$ 289,377	\$ 2,156,873	\$ 2,446,370

#### ESTRADA HINOJOSA & COMPANY, INC. STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$	9,978,944
Cash paid to suppliers and employees		(9,784,298)
Interest received		127,846
Interest paid		(21,473)
Taxes paid		(188,725)
Net cash provided by operating activities		112,294
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of principal on notes receivable		7,221
Capital expenditures		(42,260)
Net cash used in investing activities		(35,039)
Net increase in cash and cash equivalents		77,255
Cash and cash equivalents at beginning of year		2,371,228
Cash and cash equivalents at end of year	\$	2,448,483
RECONCILIATION OF NET INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$	11,205
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Depreciation		21,83 <del>4</del>
Decrease in receivables		823,047
Decrease in prepaid expenses		55,272
Increase in accounts payable and accrued expenses		(613,854)
Increase in current tax receivable		(32,008)
Increase in income taxes payable Increase in deferred income taxes		(104,189) (49,013)
Net cash provided by operating activities	<u>\$</u>	112,294
RECONCILIATION OF CASH AND CASH EQUIVALENTS ON		
THE STATEMENT OF CASH FLOWS TO THE BALANCE SHEET:		
Cash	\$	1,417,483
Cash deposits with clearing organization		1,031,000
Cash and cash equivalents at end of year	\$	2,448,483

## ESTRADA HINOJOSA & COMPANY, INC. NOTES TO FINANCIAL STATEMENTS

#### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policy relative to the carrying value of furniture, fixtures and equipment is indicated in the caption on the statement of financial condition.

#### **Business Activity and Concentration of Credit Risk**

Estrada Hinojosa & Company, Inc. (the Company) operates primarily as a broker of publicly traded securities and investments in Texas using a clearing organization located in Texas. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### **Accounts Receivable**

Receivables from brokers and dealers and other receivables are reported in the statement of financial condition at outstanding principal adjusted for any charge offs. An allowance for doubtful accounts is recognized by management based upon a review of specific customer balances, historical losses (bad debts) incurred and general economic conditions. As of December 31, 2007, the Company had no accounts that management believes were doubtful of being collected.

#### Equipment

Depreciation expense is computed using the straight-line method over an estimated useful life of seven years.

#### **Revenue Recognition**

Customers' securities transactions are recorded on a settlement date basis with commission income and expenses recorded on a trade date basis. Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from financial restructuring advisory services. Investment banking management fees are recorded on offering date, sales concession on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

#### Resale and Repurchase Agreements and Securities Lending Agreements

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price.

### ESTRADA HINOJOSA & COMPANY, INC. NOTES TO FINANCIAL STATEMENTS

#### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Resale and Repurchase Agreements and Securities Lending Agreements - continued

The Company monitors the collateral on a regular basis to ensure that its market value is equal to or in excess of the principal amount loaned under the resale agreements. A third party maintains possession of the collateral on behalf of the Company. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

#### **Income Taxes**

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109 ("SFAS 109") "Accounting for Income Taxes". Accordingly, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to the use of the cash basis method of accounting for income tax purposes and differences in equipment. Deferred taxes represent the future tax return consequences of those differences, which will be taxable or deductible when the assets and liabilities are recovered or settled.

Under SFAS No. 109, an asset and liability approach is used in accounting for income taxes. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting or according to the expected reversal date of temporary differences not related to an asset or liability for financial reporting. Also, a valuation allowance is used, if necessary, to reduce deferred tax assets by the amount of any tax benefits not expected to be realized based on available evidence.

#### Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ESTRADA HINOJOSA & COMPANY, INC. NOTES TO FINANCIAL STATEMENTS

#### NOTE 2. FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment consists of the following at December 31, 2007:

Computer equipment and software Furniture and fixtures		192,057 55,577
Accumulated depreciation		247,634 (152,853)
Furniture, fixtures and equipment, net	\$	94,781

#### NOTE 3. COMMITMENTS AND CONTINGENCIES

The Company leases office space under long-term non-cancelable operating leases. Future minimum required lease payments at December 31 are:

Year Ended		
June 30,	Total	
2008	\$	284,700
2009		273,246
2010		261,926
2011		175,649
2012 and Thereafter		487,474
	\$	1,482,995

The total rent expense under all operating leases totaled \$362,389 for the year ended December 31, 2007. Included in that amount is \$78,000 paid to an affiliate related through common ownership.

#### NOTE 4. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. If the net capital ratio exceeds 10 to 1 the Company may not withdraw equity capital or pay cash dividends. At December 31, 2007, the Company had net capital of \$1,893,649, which was \$1,793,649 in excess of its required net capital of \$100,000. The Company's net capital ratio was 0.39 to 1.

## ESTRADA HINOJOSA & COMPANY, INC. NOTES TO FINANCIAL STATEMENTS

#### NOTE 5. INCOME TAX EXPENSE

Income tax expense consists of the following at December 31, 2007:

Current tax expense	\$	97,992
Deferred tax benefit		(94,477)
Total tax expense	_\$	3,515

Current income tax expense differs from the tax computed by applying the federal statutory rates to income before taxes principally because of non-deductible expenses for tax purposes.

Net deferred tax liabilities are analyzed as follows:

Gross deferred tax assets	\$ 26,776
Gross deferred tax liabilities	(108,887)
Net deferred tax liabilities	\$ (82,111)

#### NOTE 6. RETIREMENT PLAN

Effective January 1, 2002, the Company adopted a 401(K) retirement plan that covers all employees that completes a minimum of six months of service. Eligible employees may contribute any amount to the plan, up to the statutory maximum permitted. Each year, the Company has the discretion to make a non-elective contribution to the accounts of each employee eligible to participate in the plan. The Company's contribution to the plan for 2007 was \$92,527.

#### NOTE 7. RELATED PARTY TRANSACTIONS

The Company advanced \$30,000 to a company partly owned by the majority shareholders in Estrada Hinojosa. The purpose of the advance was to provide resources to support upcoming services. The funds will be returned to the Company upon the associated company receiving compensation for their services.

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SUPPLEMENT	ARY INFORMAT	ΓΙΟΝ	
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## ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE I - -COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION DECEMBER 31, 2007

NET CAPITAL		
Total stockholders' equity		\$ 2,446,370
Deduct stockholders' equity not allowable for net capital		
Total stockholders' equity qualified for net capital		2,446,370
ADD:		
A. Liabilities subordinated to claims		
of general creditors allowable		
in computation of net capital		
B. Other (deductions) or allowable credits		
Total capital and allowable subordinated liabilities		2,446,370
DEDUCTIONS AND/OR CHARGES		
A. Non-allowable assets		
Other receivables	\$ 383,212	
Notes receivable - officers		
Furniture, fixtures and equipment, net	94,781	
B. Secured demand note deficiency		
C. Commodity futures contracts and spot commodities -		
proprietary capital charges		
D. Other deductions and/or charges	74,728	552,721
Net capital before haircuts on securities positions		1,893,649
HAIRCUTS ON SECURITIES POSITIONS		
A. Contractual securities commitments		
B. Deficit in securities collateralizing secured demand notes		
C. Trading and investment securities		
Exempt securities		
2. Debt securities		
3. Options		
D. Undue concentration		
E. Other	 <u></u>	
NET CAPITAL		\$ 1,893,649

## ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE I - -COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION DECEMBER 31, 2007

AGGREGATE INDEBTEDNESS  Total liabilities from statement of financial condition (net of deferred income taxes)	\$ 736,576
<ul> <li>ADD:</li> <li>A. Drafts for immediate credit</li> <li>B. Market value of securities borrowed for which no equivalent value is paid or credited</li> <li>C. Other unrecorded amounts</li> </ul>	
Total aggregate indebtedness	\$ 736,576
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Minimum net capital required	\$ 49,105
Minimum dollar net capital requirement	\$ 100,000
Net capital requirement (larger of above)	\$ 100,000
Excess net capital	\$ 1,793,649
Excess net capital at 1000% (net capital less 10% of aggregate indebtedness)	\$ 1,819,991
Percentage aggregate indebtedness to net capital	38.90
Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	N/A

#### ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE II RECONCILIATION PURSUANT TO RULE RULE 17a – 5(d)(4) DECEMBER 31, 2007

Net capital per unaudited 11A Focus Report, as reported December 31, 2007	\$ 2,002,817
Audit adjustments, net of taxes	(109,168)
Net capital, per Schedule I	\$ 1,893,649

# ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE III - -COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15C3-3 OF THE SECURITIES AND EXCHANGE COMMISSION DECEMBER 31, 2007

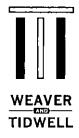
No reserve requirement is required since the Company operated as a limited securities broker pursuant to the (K)(2)(ii) exemption under Rule 15c3-3. The conditions of exemption from Rule 15c3-3 were being complied with at December 31, 2007, and during the year then ended.

# ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE IV - -INFORMATION RELATING TO POSSESSION OR CONTROL REQUIRMENTS UNDER RULE 15C3-3 OF THE SECURITIES AND EXCHANGE COMMISSION DECEMBER 31, 2007

Possession or control of securities is not maintained by the Company and the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

#### ESTRADA HINOJOSA & COMPANY, INC. SCHEDULE V - -SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION DECEMBER 31, 2007

The Company has no segregation requirements or funds in segregation since the Company operated as a limited securities broker pursuant to the (K)(2)(ii) exemption under Rule 15c3-3 and the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.



L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17A-5

To the Board of Directors
ESTRADA HINOJOSA & COMPANY, INC.
Dallas, Texas

In planning and performing our audit of the financial statements of Estrada Hinojosa & Company, Inc. (the Company) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13.
- Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of Estrada Hinojosa & Company, Inc. is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's abovementioned objectives. Two of the objectives of internal control and the practices

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OFFICES IN

## ESTRADA HINOJOSA & COMPANY February 28, 2008

Page Two

and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result is in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities and certain regulated commodity customer and firm assets that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control that we consider to be significant deficiency that we wish to report to you. These matters, which were considered by us during our audit of the financial statements and do not modify the opinion expressed in our report dated February 28, 2008, are presented in the following paragraph.

As of December 31, 2007, the Company did not maintain effective controls over the determination and reporting of the provision for income taxes and related deferred income tax balances. Specifically, the Company did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related deferred income taxes and to

## ESTRADA HINOJOSA & COMPANY February 28, 2008

Page Three

monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the deferred income tax balances. We recommend the Company review their current process of estimating tax liabilities and assets to ensure that the appropriate components are utilized in the calculation and reflected in the Company's financial records.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

WEAVER AND TIDWELL, L.L.P.

Wearm and Tidwan, Lif

Dallas, Texas February 28, 2008

